AUDIT REPORT

CITY OF INDEPENDENCE, MISSOURI
YEAR ENDED JUNE 30, 2003

From The Office Of State Auditor
Claire McCaskill

Report No. 2004-69
September 15, 2004
www.auditor.mo.gov

Office Of The
State Auditor Of Missouri
Claire McCaskill

September 2004

YELLOW SHEET

The following problems were discovered as a result of an audit conducted by our office of the City of Independence, Missouri.

Expenditures from the General Fund have exceeded revenues in three of the last five years resulting in a decline of the fund balance. The city's goal is to maintain 5 percent of General Fund annual revenues in undesignated fund balance to be used for unanticipated and/or catastrophic events. At June 30, 2003, the undesignated fund balance was approximately $2.5 million below the city's goal of 5 percent of annual revenues. While recent monthly financial reports suggest ways to increase the undesignated fund balance, the city has not developed a plan to restore the balance in accordance with its policy.

The following, if eliminated or handled differently, represent discretionary spending or designating of funds that could have increased the undesignated General Fund balance:

- The city chooses to earmark unrestricted tax increment financing (TIF) distribution monies for capital projects. Within the General Fund, the city designated $1.5 million in TIF distribution monies to be spent on capital projects during the year ended June 30, 2003. Additionally, $330,000 in other General Fund monies was transferred from the General Fund into restricted funds to be used for capital projects. Therefore, $1.8 million in unrestricted monies used or reserved for capital improvements could have been available for other purposes or left as undesignated in the General Fund during the year ended June 30, 2003.

- The Revolving Public Improvements Fund had a $235,000 balance at July 1, 2002, of which the city spent $196,000 on capital projects during the year ended June 30, 2003. This balance consisted of interest revenue remaining in the fund which was not restricted and could have been transferred into the General Fund.

- The city paid approximately $6.8 million from the General Fund for its portion of employee medical insurance premiums during the year ended June 30, 2003. The city continues to pay 86 percent of the total premium costs, despite a recommendation in an actuarial study done in 2000 that the city should increase the portion paid by its employees.

The following concerns were noted regarding the Stay Well Health Care Plan, which is the city's self-funded medical insurance plan for employees and retirees:

(over)

- The city has not been meeting the Council-approved funding goals established for the Stay Well plan, and as of June 30, 2003, the plan was underfunded by approximately $1.9 million. Expenditures have exceeded revenues in three of the last five years, resulting in a decline in the plan's fund balance. While the city prepares annual analyses to project premium rate increases necessary to fully fund the plan, full funding is projected to occur three or five years subsequent to the preparation of these analyses, and the city has not enacted the required rate increases over these three- or five-year periods to fully fund the plan.

- The city pays for actuarial studies of the Stay Well plan. The study performed in March 2000 included nine recommendations and the city has only implemented two of them.

- The city could potentially save costs by dropping its aggregate attachment point reinsurance coverage, which is coverage when total employee medical claims for the year exceed a specified dollar limit. The city has never had to use this coverage, and the city spent $33,000 for such coverage during the year ended June 30, 2003.

- The city provides a Health Maintenance Organization (HMO) option to city employees and retirees which costs the city less per employee/retiree than the Stay Well plan. If every employee/retiree was enrolled in the HMO, it appears the city could have saved over $1 million in premium costs during the year ended June 30, 2003. The city should perform a thorough analysis comparing the costs and benefits of the Stay Well plan to the costs and benefits of other employee medical insurance plans, including the HMO option.

The construction of the Santa Fe Trail Tax Increment Financing (TIF) area has been delayed and no additional development is expected within the next year. Currently, TIF expenses (bond payments) are significantly higher than the revenues generated. If additional development is not started soon, the city will need to use general funds to make the majority of the remaining debt service payments, which increase significantly during the latter years of the project and average $921,000 per year through 2023. For the year ended June 30, 2005, the city estimated $861,000 in available TIF funds; however, the required debt payments for the year totaled $955,000.

Also included in the report are recommendations to improve records and procedures for procurement card purchases and other city expenditures, vehicle and equipment inventory and usage records, vehicle allowances paid to city officials and employees, and closed council meeting minutes.

All reports are available on our website: www.auditor.mo.gov

CITY OF INDEPENDENCE, MISSOURI

TABLE OF CONTENTS

STATE AUDITOR'S REPORT

CLAIRE C. McCASKILL
Missouri State Auditor

To the Honorable Mayor
and
Members of the City Council
City of Independence, Missouri

The State Auditor was engaged to perform an audit of the City of Independence, Missouri. The city engaged KPMG LLP, Certified Public Accountants (CPAs), to audit the city's financial statements for the year ended June 30, 2003. To minimize duplication of effort, we reviewed the report and substantiating working papers of the CPA firm. The scope of our audit of the city included, but was not necessarily limited to, the year ended June 30, 2003. The objectives of this audit were to:

1. Perform procedures to evaluate citizens' concerns.

2. Review internal controls over significant management and financial functions.

3. Review compliance with certain legal provisions.

To accomplish these objectives, we reviewed minutes of meetings, written policies, financial records, and other pertinent documents; interviewed various personnel of the city, as well as certain external parties; and tested selected transactions. Our methodology included, but was not necessarily limited to, the following:

1. We obtained an understanding of citizen concerns and performed various procedures to determine their validity and significance.

2. We obtained an understanding of internal controls significant to the audit objectives and considered whether specific controls have been properly designed and placed in operation. However, providing an opinion on internal controls was not an objective of our audit and accordingly, we do not express such an opinion.

3. We obtained an understanding of legal provisions significant to the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contract, grant agreement, or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide

P.O. Box 869 • Jefferson City, MO 65102 • (573) 751-4213 • FAX (573) 751-7984

reasonable assurance of detecting significant instances of noncompliance with the provisions. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion.

Our audit was conducted in accordance with applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and included such procedures as we considered necessary in the circumstances.

The accompanying History, Organization, and Statistical Information is presented for informational purposes. This information was obtained from the city's management and was not subjected to the procedures applied in the audit of the city.

The accompanying Management Advisory Report presents our findings arising from our audit of the City of Independence, Missouri.

Claire McCaskill
State Auditor

April 29, 2004 (fieldwork completion date)

The following auditors participated in the preparation of this report:

Director of Audits:	Thomas J. Kremer, CPA
Audit Manager:	Mark Ruether, CPA
In-Charge Auditor:	Susan Beeler
Audit Staff:	Danielle E. Parker
	Marty Carter

MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

1. Financial Condition

Expenditures from the General Fund have exceeded revenues in three of the last five years resulting in a decline of the fund balance. The city's goal is to maintain 5 percent of General Fund annual revenues in undesignated fund balance to be used for unanticipated and/or catastrophic events. However, the city has not reached this goal for the past two years as shown below:

		Year Ended June 30,				
		2003	2002	2001	2000	1999
Beginning fund balance	$	7,094,206	7,969,012	6,229,361	6,152,180	7,785,760
Revenues*		59,051,715	64,525,048	58,860,727	53,538,614	50,288,109
Expenditures**		(61,186,616)	(65,399,854)	(57,121,076)	(53,461,433)	(51,921,689)
Ending fund balance	$	4,959,305	7,094,206	7,969,012	6,229,361	6,152,180
Undesignated ending fund balance	$	413,564	1,965,621	3,509,067	2,623,804	3,245,732
Undesignated fund balance as a percentage of revenues		0.70%	3.05%	5.96%	4.90%	6.45%

* Includes other financing sources, such as utility payments in lieu of taxes and debt proceeds.

**Includes other financing uses, such as tranfers to other funds.

The undesignated fund balance consists of all funds that are not designated or reserved for specific uses. The remainder of the fund balance is reserved and designated for items such as year-end encumbrances (commitments related to unperformed contracts for goods or services), debt service reserves, protested tax revenues, workers compensation insurance reserve, and capital projects.

As noted in the above chart, revenues steadily increased until fiscal year 2003. During fiscal year 2003, most revenue categories remained about the same; however, intergovernmental revenues, which includes state and federal grants, decreased by approximately $5 million in fiscal year 2003 compared to fiscal year 2002. While expenditures also decreased in fiscal year 2003, they still exceeded revenues by over $2 million. At June 30, 2003, the undesignated fund balance was approximately $2.5 million below the city's goal of 5 percent of annual revenues.

The following situations represent discretionary spending or designating of funds that, if eliminated or handled differently, could have increased the undesignated balance of the General Fund:

- The city chooses to earmark tax increment financing (TIF) distribution monies for capital projects. TIF distribution monies are the increase in general tax revenues generated in a TIF area after the TIF has been completed. While these revenues are legally restricted to pay for TIF infrastructure improvements and related debt payments while the TIF project is active, this money is deposited into the General Fund and there are no legal restrictions on the use of these revenues once the TIF project has been completed and the related debt has been extinguished. Within the General Fund, the city designated $1.5 million in TIF distribution monies to be spent on capital projects during the year ended June 30, 2003. During the same time period, $330,000 in other General Fund monies was transferred from the General Fund into restricted funds to be used for capital projects. Therefore, $1.8 million in unrestricted monies used or reserved for capital improvements could have been available for other purposes or left as undesignated in the General Fund during the year ended June 30, 2003.

- The Revolving Public Improvements Fund, which is historically a restricted capital projects fund, had a $235,000 balance at July 1, 2002, of which the city spent $196,000 on capital projects during the year ended June 30, 2003. However, this balance consisted of interest revenue remaining in the fund which was not restricted and could have been transferred into the General Fund.

- The city paid approximately $6.8 million from the General Fund for its portion of employee medical insurance premiums during the year ended June 30, 2003. The city continues to pay 86 percent of the total premium cost, despite a recommendation in an actuarial study done in 2000 that the city should increase the portion paid by its employees. In addition, the majority of city employees and retirees use the self-funded medical insurance plan while it appears the city's HMO option is less costly. See Management Advisory Report (MAR) No. 2 for more specific concerns about the Stay Well Health Care Plan.

- The city paid approximately $62,000 in vehicle allowances from the general fund during the year ended June 30, 2003 and does not require the applicable officials and employees to document mileage incurred on city business. See MAR No. 6 for more specific concerns about vehicle allowances.

The city has a policy stating the city will strive to restore the undesignated fund balance if it falls below the city's goal. While recent monthly financial reports provided to the City Council suggest ways to increase the undesignated fund balance, the city has not developed a plan to restore the balance in accordance with its policy. The city should take steps to reverse the trend of the declining fund balance and develop short-term and long-term plans to strengthen the financial condition of the General Fund.

WE RECOMMEND the City Council closely monitor the financial condition of the city and take appropriate steps to restore the undesignated portion of the General Fund balance to the city's goal of 5 percent of annual revenues.

AUDITEE'S RESPONSE

The City concurs with this recommendation. Through most of fiscal year 2003-04, the City took steps to improve the financial position of the General Fund, and in preparing the Operating Budget for fiscal year 2004-05, provided for funding to restore the Undesignated Fund Balance in accordance with its policy.

2. Stay Well Health Care Plan

The city has not been meeting the Council-approved funding goals established for the Stay Well Health Care Plan, which is the city's self-funded employee medical insurance plan, and as of June 30, 2003, the plan was underfunded by approximately $1.9 million. The city has not adequately implemented recommendations resulting from internal and external reviews of Stay Well. The city could potentially save money on the Stay Well plan by making changes to its reinsurance policy. It appears the city could save as much as $1 million annually if city employees/retirees used the city's Health Maintenance Organization (HMO) plans instead of Stay Well, and the city should perform a cost/benefit study comparing Stay Well to other employee medical insurance options.

The Stay Well Health Care Plan was established by the city in 1982 as a self-funded employee medical insurance plan for the benefit of eligible employees, their dependents, and retirees. During the year ended June 30, 2003, approximately 79 percent of eligible city employees/retirees were enrolled in Stay Well. For the past several years, insurance premium costs have been paid 86 percent by the city and the remaining 14 percent by the employees/retirees. Plan revenues and expenses are accounted for in a separate city fund, called the Staywell Health Care Fund. Plan revenues for the year ended June 30, 2003 totaled $10.2 million, of which $8.7 million was the city's portion of premiums.

A. The Staywell Health Care Fund expenditures exceeded revenues in three out of the last five years resulting in a decline of the fund balance as shown in the table below:

		Year Ended June 30,				
		2003	2002	2001	2000	1999
Beginning balance	$	(60,795)	172,727	1,125,330	1,923,716	1,008,605
Revenues		10,212,446	8,784,246	8,287,365	6,900,234	6,653,728
Expenditures		(9,647,777)	(9,017,768)	(9,239,968)	(7,698,620)	(5,738,617)
Ending balance	$	503,874	(60,795)	172,727	1,125,330	1,923,716

The city's budget for the year ended June 30, 2004 projected no change in the fund balance. According to city officials, the city chose not to increase premiums for the year ended June 30, 2004, because of a lack of available resources. In lieu of premium increases for 2004, the city has made changes to the plan, such as implementing higher co-payments. As of April 30, 2004, the balance in the fund was $439,064.

The city is not meeting its funding level goal for the plan. The city's funding level goal is set at the aggregate attachment point, which is 125 percent of estimated medical claims, or total estimated claims for the year plus an additional 25 percent (three months) of estimated claims. This provides additional funds in case estimated claims are higher than expected. Had the city fully funded the plan in accordance with its goal, the city should have had approximately $2.4 million fund balance at June 30, 2003, which represents approximately 3 months of claims. However, as shown above, the city had less than one month of estimated claims available at that time, and therefore, the plan was underfunded by approximately $1.9 million.

Annually, the Finance Department prepared three-year rolling analyses to project premium rate increases necessary for the plan to be fully funded by the end of the third year. These analyses were based on different potential premium increase and benefit change scenarios for the city council to evaluate and determine an appropriate premium increase for the subsequent year. For the year ended June 30, 2004, the scenario chosen by the city council was a five-year analysis instead of the normal three-year analysis. Our review noted the following concerns with these yearly analyses:

1. The funding level goal is not met because the final year of the analyses is never reached. Each analysis included estimated yearly revenues, expenditures, and fund balance based on recommended annual premium increases, but the increases recommended for the first two years of the three-year analyses (first four years for the five-year analysis) are not sufficient to reach the aggregate attachment point at the end of each year. The analyses only plans for recovery of a portion of the underfunding each year. Since the city prepares a new analysis every year, the only way the city will reach its funding goal is to set premiums to reach the aggregate attachment point during the first year and each subsequent year of the analysis. The city should ensure it adopts funding goals that it intends to attain, and full funding is not constantly three or five years away.

2. When preparing the analyses described above, the city uses the cash balance in the Staywell Health Care Fund instead of net assets as the amount of beginning available resources. By using the cash balance instead of net assets, the city is not considering liabilities for medical claims expenses incurred but not yet paid, and therefore, the city is overestimating the balance available to pay for future medical claims incurred. For example, at June 30, 2003, the cash balance was $1.3 million while net assets were only $0.5 million, so the city overstated its beginning available resources by $0.8 million. An outside actuarial study performed in March 2000 concluded this method of using cash balance rather than net assets contributes to the city's inability to meet its funding goal.

City officials stated the beginning cash balance is used because the plan is "ongoing from year to year," and claims not paid in one year will be paid in the next plan year. Therefore, it appears the city plans to use subsequent year's premiums to cover some previous year's claims.

B. The city has only implemented or taken steps toward implementing 3 of 11 recommendations made in recent internal and external reviews of the Stay Well Health Care Plan. In March 2000, the city received an outside actuarial valuation, and in April 2003, the city's Management Analyst performed an internal review of the plan.

1. The March 2000 actuarial valuation included nine recommendations and the city has only taken steps toward implementing two of them. One unimplemented recommendation is for the city to require smaller premium increases every year rather than zero increase some years, followed by exaggerated increases in others. The actuary suggested premium increases of 5 to 10 percent annually as a common industry practice. The city increased premiums by 15 percent and 22 percent in the first two years after the report was issued, and 0 percent in the third year (2003-2004). Additionally, the actuary recommended the city increase the employee portion of premium costs (currently 14 percent), stating the current employee contribution rate was low compared to other plans.

   The other unimplemented recommendations include reviewing the rate structures for employees, dependents, and retirees, and increasing the level of coinsurance and co-payments.

   The city paid $15,000 for the actuarial valuation performed in March 2000 and recently paid $29,000 for another actuarial valuation completed in March 2004. The city has not adequately documented actions taken to address the March 2000 recommendations and since many of these recommendations have not been implemented, the city should thoroughly review the new information provided by the March 2004 valuation. If the city continues to only implement some of such recommendations, it should re-evaluate the benefits received from these reviews compared to the costs incurred.

2. The review performed by the city's Management Analyst included two recommendations to the city, of which one has been implemented. In addition, the Management Analyst reviewed 100 percent of medical claims incurred during the year ended June 30, 2002, and determined duplicate claims of $48,759 were made. In December 2002, the Management Analyst provided a list of these potential duplicate claims to the plan's third party administrator to begin recoupment efforts; however, apparently little effort had been made to follow up on the duplicate claims. Upon our questioning of the status of the duplicate claims, the third party

administrator prepared a status update in February 2004 which stated $27,317 was not actually overpaid and $10,982 had been recovered. However, nothing had been done on the remaining $10,460. The city should continue follow-up efforts to resolve the remaining amount of duplicate claims.

C. The city could potentially save costs by dropping its aggregate attachment point reinsurance coverage. Aggregate attachment point reinsurance is a policy which activates when total claims in aggregate exceed a specified dollar limit during the contract year. This dollar limit is determined by the reinsurance company and represents 125 percent of expected claims during the contract year. City officials indicated Stay Well claims have never reached the aggregate attachment point level; therefore, the city is paying for reinsurance that has never been used. Other cities in Missouri and the surrounding area with self-funded employee medical insurance plans and the Mid America Regional Council, an insurance pool among smaller cities, do not purchase aggregate attachment point reinsurance or have chosen to drop this coverage because claims never reached the aggregate attachment point level. The city paid approximately $33,000 for aggregate attachment point reinsurance during the year ended June 30, 2003. While the city may need to change other plan details which could add additional reinsurance costs, it appears the city may realize a savings by dropping its aggregate attachment point coverage.

D. The city has not performed an analysis to determine if different employee medical insurance options would benefit the city. The city provides a Health Management Organization (HMO) option to city employees which costs the city less per employee than the Stay Well plan. The city pays 86 percent of the premiums for both plans. During the year ended June 30, 2003, approximately 79 percent or 1,229 employees/retirees chose Stay Well, while 21 percent or 329 employees/retirees chose the HMO. During the same year, the city paid an average of $7,083 per person (or approximately $8.7 million total) for Stay Well premiums, and paid an average of $5,733 per person (or approximately $1.9 million total) for HMO premiums. If every employee/retiree was enrolled in the HMO, it appears the city could have saved over $1 million during the year ended June 30, 2003.

The city should perform a thorough analysis comparing the costs and benefits of the Stay Well plan to the costs and benefits of other employee medical insurance plans, including the current HMO option.

WE RECOMMEND the City Council:

A Adopt funding goals for the Stay Well Health Care Plan that the city plans to attain and which ensure the Staywell Health Care Fund stays financially viable.

B. Adequately document actions taken to address recommendations made concerning the Stay Well plan. The City Council should also re-evaluate the benefit of paying for external reviews of the Stay Well plan if it does not intend to implement the recommendations resulting from these reviews. In addition, the city should follow up on the status of the duplicate claims noted during the internal review.

C. Perform an analysis to determine if dropping the Stay Well plan's aggregate attachment point coverage would be beneficial.

D. Perform a cost/benefit analysis comparing the Stay Well plan to other employee medical insurance options and choose the option(s) which provide the best value to the city and its employees/retirees.

<u>AUDITEE'S RESPONSE</u>

A. The City concurs with this recommendation.

B. The City periodically initiates external reviews of the Stay Well Plan, either in an effort to address specific questions or to assist in the general evaluation and management of the plan. While the recommendations of those reviews are assessed, not all end up being practical to implement, for financial or other reasons. The issue of duplicate claims will continue to be addressed.

C. The analysis recommended has been performed. The City purchases aggregate stop loss reinsurance coverage to limit the maximum annual financial exposure of the City for the Stay Well Health Care Plan expenses. The current annual aggregate stop loss or attachment point is approximately $13,700,000. The City recognizes that if the fund is adequately financed, aggregate stop loss reinsurance may not be necessary. The City's risk management consultant suggests the Plan have a total of approximately 35% of last year's claims and fixed expenses in reserve for claim run-off and catastrophic years before considering dropping aggregate stop loss reinsurance coverage. The Plan's current cash balance of $1,039,567 is approximately 11% of last fiscal year's claim and fixed expenses. Using this methodology, the Plan's cash balance would need to increase an additional $2,300,000 before the City should consider dropping the Plan's aggregate stop loss reinsurance coverage.

D. The City concurs in the recommendation to perform periodic analysis on the Stay Well Plan to ensure that the best values in medical insurance options are being provided to the City and its employees and retirees.

3. Santa Fe Trail Tax Increment Financing

The construction of the Santa Fe Trail Tax Increment Financing (TIF) Area has been delayed and no additional development is expected within the next year. Currently, TIF expenses (bond payments) are significantly higher than the revenues generated. If additional development is not started soon, the city's general funds will have to be used to help pay the bond payments. The city expects to use general fund monies of approximately $94,000 during the year ended June 30, 2005, to make bond principal and interest payments for the related redevelopment project.

The city has approved several TIF projects over the past few years, and while some have started slowly, TIF projects other than the Santa Fe Trail TIF are producing revenues sufficient to cover the related expenses. The city approved the Santa Fe Trail TIF district in 1997 and the related redevelopment plan in 2000. The 29-acre redevelopment project was approved as a TIF project pursuant to Sections 99.800 to 99.865, RSMo. The city issued $10 million in tax increment allocation bonds in August 2001 to pay a portion of the costs of the infrastructure improvements needed for the development. The city established the project with the intent to repay the bonds using a portion of the incremental increase in the economic activity taxes (EATS) and payments in lieu of taxes (PILOTS). EATS are sales taxes, earnings taxes, food and beverage taxes and motor vehicle sales taxes generated within the TIF area, while PILOTS are the incremental increases in property taxes on real estate in the TIF area. At the time of the bond issuance, the city received capitalized interest totaling $1,538,450, which represents part of the bond proceeds reserved to make the first few debt service payments due to anticipation of insufficient EATS and PILOTS during the first few years of the TIF.

The following chart documents TIF income and debt services payments during the first two years of the TIF project.

Santa Fe Trail TIF Analysis

Year Ending June 30	TIF Income and Interest	Debt Service Payment	Deficit
2002	$ 273,824	$ 351,394	$ (77,570)
2003	130,351	527,091	(396,740)
Total			$ (474,310)

As shown, EATS and PILOTS in the first two years of the TIF were not sufficient to cover the debt services payments. Capitalized interest from the bond proceeds was used to cover the deficit. If the developer does not attract any new businesses into the TIF area, the city will need to use general funds to make the majority of the remaining debt service payments, which increase significantly during the latter years of the project and average $921,000 per year through 2023.

The city’s original projections indicated the expected TIF revenues (EATS and PILOTS) would total $22 million over the life of the TIF to cover the total debt service payments of $19 million, resulting in a projected surplus of $3 million. However, development has been delayed causing EATS and PILOTS to be significantly less than estimated in the original cost analysis.

While the TIF plan included 220,000 square feet of new retail/commercial space, approximately eight new residential units, and related off-site public improvements, only one of the original proposed buildings (commercial) was completed. Currently, only two businesses (one planned and one unplanned) are operating within the TIF area. The original analysis, which indicated that the estimated EATS and PILOTS would be sufficient to cover the debt service payments, was based on the TIF developer's lease agreement with a company to establish a grocery store as the main (anchor) tenant. However, after the bonds were issued for the TIF, the grocery store company pulled out due to financial difficulties, and the developer has not been successful in attracting a new main tenant. City officials indicated that once the main tenant is established, additional tenants will follow. Due to this delay, the EATS and PILOTS generated in the project area have not been sufficient to meet the yearly debt service obligations. In addition, the City's Community Development Director indicated that although the developer is still attempting to attract a main tenant, as of April 2004, there is no additional planned development within the TIF project area.

As of February 2004, the city estimated $861,000 in available funds, which included remaining fund balance and anticipated TIF revenues for the year ended June 30, 2005. Based on available funds and the debt service payments totaling $955,000 for the year, the city estimates a subsidy of approximately $94,000 in city general funds during the year ended June 30, 2005.

WE RECOMMEND the City Council review the current status of the Santa Fe Trail project and determine the appropriate course of action to minimize the amount of city general fund subsidies required to cover the debt service requirements of this project.

AUDITEE'S RESPONSE

The City concurs with this recommendation. The City has worked with the developer of this project and has implemented a plan to avoid a debt service shortfall for FY 2004-05. The City will continue to communicate with the developer regarding future shortfalls and the need to bring businesses to this site.

4. Expenditure Procedures

Adequate supporting documentation for procurement card purchases was not always present prior to payment. Additionally, the city does not have formal policies regarding in-town meal expenses and purchasing flowers/plants in the event of death or illness of an employee or immediate family member.

A. Some procurement card purchases did not include adequate supporting documentation prior to payment. Forty-three employees have been issued procurement cards. During our review of one monthly procurement card statement and supporting documentation, approximately $1,800 of the $11,535 total charges was not supported by invoices prior to payment. The city's procurement policy provides for forwarding of sales receipt slips to a designated department employee for reconciliation and approval prior to payment. Additionally, it states if goods or materials are ordered by phone, the card holder should ask the vendor to include a detailed sales receipt in the package. The city did obtain supporting documentation for the $1,800 subsequent to our review.

The city should ensure the users of the procurement cards follow the city's procurement card policy by properly submitting invoices or other adequate documentation for all charges prior to payment.

B. The city does not have a formal city-wide policy for purchasing flowers/plants in the event of death or illness. City personnel explained some departments take up a collection for such purchases while other departments use city funds. Such expenditure of city funds may not be a necessary or prudent use of funds.

Formal policies related to purchase of flower/plants are necessary to ensure public funds are expended in a necessary and prudent manner, and ensure consistency between departments.

C. The city does not have a formal policy regarding using city funds for employee meals while not on travel status or for meals of non-city employees. Our review of selected expenditures noted a $224 meal charge at a local restaurant for 5 city employees and 3 guests, who were performing an accreditation review of the police department. The city was unable to provide us with a yearly total of these types of expenditures.

The city should develop formal policies regarding these issues, which address meal expenditures for non-city employees and require documentation of the city-related business purpose of each meal. The policy should also address when in-town meal expenditures for city employees are allowed.

WE RECOMMEND the City Council:

A. Require adequate supporting documentation for all procurement card purchases prior to payment.

B. Develop a formal city-wide policy related to purchasing flowers/plants in the event of death or illness.

C. Adopt policies regarding the payment of meal expenses for guests and in-town meal expenditures for city employees. Adequate supporting documentation and the purpose of the expenditures should be maintained to ensure such expenditures are for necessary city business.

AUDITEE'S RESPONSE

A. The City concurs with this recommendation. The City has an adopted policy that requires receipts for all procurement card transactions.

B. The City concurs with this recommendation. A policy will be drafted and implemented.

C. The City concurs with this recommendation. A policy has recently been adopted for in-town meal expenditures for city employees. The City will examine its practices concerning expenses for guests.

5. Vehicle and Equipment Procedures

The city does not maintain adequate inventory records or usage logs for vehicles and heavy equipment.

A. The city does not maintain adequate centralized property records to account for approximately 960 vehicles and equipment owned by the city. Additionally, the departments do not always inform the Finance Department's Accounting Division of changes to their inventory and annual physical inventories are not conducted.

The various departments do not always inform the accounting division of all vehicles that have been surplused or traded-in, and the corresponding replacement vehicles. We noted ten vehicles that were traded or surplused, which were not reported to the accounting division and therefore, were not deleted from the city's inventory records. One of these vehicles was surplused in 1991. We also noted one vehicle added to the inventory was a leased vehicle to replace a previous leased vehicle. The Police Department re-used the asset number from the previous leased vehicle; therefore, the accounting division's inventory records reflected the vehicle that had been replaced. The city should develop formal policies requiring the departments to inform the accounting division when a vehicle is traded or surplused.

In addition, the city does not conduct annual physical inventories of vehicles. It is the city's informal policy to conduct a city-wide periodic physical inventory at least every five years, and a periodic inventory of assets purchased with federal funds every two years. The last periodic inventory of vehicles was conducted on April 17, 2000, by the accounting division; however, some departments did not participate in this inventory.

Adequate vehicle records are necessary to provide better controls over city property and provide a basis for proper financial reporting. Formal policies and procedures for the annual physical inventory are necessary to ensure all personnel understand the duties assigned to them.

B. Usage logs are not maintained for most vehicles and equipment. City employees stated mileage is tracked through the city's fueling system, which requires the users to enter the mileage prior to fueling, and therefore, vehicle logs are not maintained. The fueling system, however, does not allow for the tracking of purpose and destination of each trip, and the beginning and ending odometer readings or hours of usage for certain types of equipment, such as tractors and bulldozers.

Additionally, while one master log is maintained for the pool vehicles in each of the Public Works and Water Departments, the logs are not always adequately completed for each trip taken, were not maintained for each individual pool vehicle, and did not require trip mileage to be recorded. The logs include the name of the driver, time out and returned, reason/destination, and car number used.

Usage logs are necessary to document the appropriate use of the vehicles and equipment and to support fuel and other charges. The logs should include the purpose and destination of each trip and the beginning and ending odometer readings or hours of usage as applicable. Supervisory reviews of the logs should be performed to ensure vehicles and equipment are used only for city business and are being properly utilized.

WE RECOMMEND the City Council:

A. Develop formal policies and procedures regarding centralized vehicle records, including requiring departments to submit changes to the Finance Department's Accounting Division and performing an annual physical inventory of vehicles.

B. Require usage logs to be maintained for all city vehicles and equipment and ensure the logs are periodically reviewed for completeness and reasonableness.

AUDITEE'S RESPONSE

A. Accounting staff maintains an inventory of vehicles both on an Excel spreadsheet as well as a mainframe inventory system. The manual system is mainly used to account for those items that are capitalized (over $5,000). Accounting monitors the expense account for vehicles each month and updates the records. Since Finance issues the asset number, the departments have to go through this Department to get an asset number in order to place the vehicle in operation.

Surplus vehicles are removed from the listing when the City receives payment from the sale of the asset. Periodically, Finance does a physical inventory. The next inventory will be conducted this fall. In the future a physical inventory will be conducted once a year in order to keep records up-to-date.

B. *While the City understands the basis for the recommendation, it believes that the time, energy and expense to implement a log system for all city vehicles and equipment would exceed the value to the City. The City will continue to utilize fleet management practices and other tools to manage its fleet and to ensure appropriate usage of the vehicles and to protect the public investment.*

6. Vehicle Allowances

The city made vehicle allowance payments totaling $109,359 (approximately $62,000 from the General Fund) to 42 officials and employees during the year ended June 30, 2003; however, the payments are not based on actual expenses incurred and some amounts paid do not appear reasonable. Additionally, the amounts paid to the city's elected officials are not set by ordinance.

A. The city pays vehicle allowances to certain officials and employees who use personal vehicles to conduct city business. The officials and employees who receive allowances are only allowed additional reimbursement for actual mileage that exceeds 200 miles for each business related round-trip. The allowances range from $125 per month paid to the City Clerk to $350 per month paid to the City Manager. The city has no documentation to show the allowance amounts are reasonable compared to actual expenses incurred, and some amounts paid appear unreasonable. Using the city's current mileage reimbursement rate of $.365 per mile, the $350 monthly allowance paid to the City Manager represents approximately 959 miles per month.

The employees/officials may request to be paid for actual mileage incurred instead of receiving the vehicle allowance. Until October 2002, the city's Power & Light Director elected to be reimbursed for actual mileage incurred. From June to October 2002, he was reimbursed $403 for actual mileage incurred while driving a personal vehicle to conduct city business. If the employee had chosen to receive the vehicle allowance for this period, he would have been paid $1,375, or $972 more than he actually received. He recently switched back to a vehicle allowance of $125 per two-week pay period.

The City Council should review the reasonableness of the mileage allowances paid, and require city employees and officials to document their actual mileage and vehicle expense while conducting city business.

B. The vehicle allowances paid to the city's elected officials (Mayor and City Council) are not established by ordinance. Because the city does not require the officials to report their actual vehicle expenses, the vehicle allowance payments represent additional compensation. All compensation paid to elected officials should be set by ordinance prior to each term of office.

WE RECOMMEND the City Council:

A. Review all vehicle allowances and set the allowances to reasonably reflect the actual expenses incurred by the applicable officials and employees. In addition, the City Council should consider eliminating the mileage allowances and reimburse officials and employees for actual mileage incurred.

B. Establish ordinances setting total compensation for all elected officials.

AUDITEE'S RESPONSE

A. The City understands that the point of reference for this recommendation is the State of Missouri practices for mileage reimbursement or providing a vehicle for certain positions. The City, for its recruitment and compensation requirements, does not concur with this recommendation. Car allowances for the City are not set solely on the basis of costs, but are considered part of the compensation package. All car allowances are treated as income to the employees and are subjected to withholdings and taxes.

B. The City concurs with this comment and will prepare an ordinance for presentation to the Council.

7. Closed Council Meetings

Minutes are not prepared to document the matters discussed in closed meetings. Although minutes for closed meetings are not specifically required by law, minutes constitute the record of proceedings of the City Council.

Section 610.020, RSMo 2000, allows the council to close meetings to the extent the meetings relate to certain specified subjects, including litigation, real estate transactions, and personnel issues. Section 610.022, RSMo 2000, requires a record or vote be held for the specific reasons announced publicly at an open session. This law provides that public governmental bodies shall not discuss other business during the closed meeting that differs from the specific reasons used to justify such meeting, record, or vote.

Formal written minutes for closed meetings result in a better record of city transactions, proceedings, and decisions. In addition, minutes help the city demonstrate that closed discussions or business relate to the specific reason announced for closing the meeting pursuant to the Sunshine Law, Chapter 610, RSMo 2000.

The Missouri General Assembly passed and the Governor signed Senate Bill 1020 which is effective on August 28, 2004. This bill requires governmental bodies to maintain minutes of closed meetings.

WE RECOMMEND the City Council ensure minutes are prepared and retained for closed meetings.

AUDITEE'S RESPONSE

The City concurs with this comment and has started maintaining these records.

HISTORY, ORGANIZATION, AND
STATISTICAL INFORMATION

CITY OF INDEPENDENCE, MISSOURI
HISTORY, ORGANIZATION, AND
STATISTICAL INFORMATION

The city of Independence is located in Jackson County. The city was incorporated in 1849 and is a constitutional charter city. The population of the city in 2000 was 113,288.

The city government consists of a mayor and a six-member city council. The members are elected for four-year terms. The mayor is elected for a four-year term and is the presiding officer of the council, but has no special administrative duties, other than chairing council meetings. The mayor, city councilmembers, and other principal officials during the year ended June 30, 2003, are identified below. The compensation, except for vehicle allowances, of these officials is established by ordinance.

Elected Officials	Period of Service During the Year Ended June 30, 2003	Compensation Paid for the Year Ended June 30, 2003
Rondell Stewart, Mayor (1)	July 2002 to June 2003	$ 23,000
Don Reimal, Councilmember (2)	July 2002 to June 2003	11,801
John Perkins, Councilmember (2) (3)	July 2002 to June 2003	11,801
Renee Paluka, Councilmember (2)	July 2002 to June 2003	11,801
Charlie Rich, Councilmember (2) (4)	July 2002 to June 2003	11,801
Jason White, Councilmember (2)	July 2002 to June 2003	11,801
James Schultz, Councilmember (2)	July 2002 to June 2003	11,801
Other Principal Officials		
Larry Blick, City Manager (5)	July 2002 to June 2003	135,033
Robert Heacock, Assistant City Manager (6)	July 2002 to June 2003	104,415
Tracey Elmore, Management Analyst (2)	July 2002 to June 2003	53,364
Bruce Lowrey, City Clerk (7)	July 2002 to June 2003	80,549
Garry Helm, Presiding Municipal Judge	July 2002 to June 2003	58,908
Susan Watkins, Municipal Judge	July 2002 to June 2003	38,863
B. Allen Garner, City Counselor (8)	May 2003 to June 2003	10,800
William Moore, City Counselor (9)	July 2002 to December 2002	127,470
Larry Kaufman, Project Manager (10)	July 2002 to June 2003	93,612

(1) Compensation includes $3,000 vehicle allowance.
(2) Compensation includes $1,800 vehicle allowance.
(3) Will Swoffer was elected in April 2004 to replace John Perkins.
(4) James Page was elected in April 2004 to replace Charlie Rich.

(5) Compensation includes $4,200 vehicle allowance. Retired in March 2004 and Robert Heacock was named Acting City Manager.
(6) Compensation includes $2,600 vehicle allowance. Appointed Acting City Manager and John Pinch was appointed Acting Assistant City Manager in March 2004.
(7) Compensation includes $1,500 vehicle allowance.
(8) Compensation includes $300 vehicle allowance.
(9) Compensation includes $1,300 vehicle allowance and $69,493 for unused leave benefits upon leaving employment with the city.
(10) Compensation includes $2,600 vehicle allowance.

In addition to the officials identified above, the city employed 1,115 full-time employees and 39 part-time employees on June 30, 2003.

Assessed valuations and tax rates for 2003 were as follows:

ASSESSED VALUATION*		
Real estate	$	918,935,342
Railroad and utility		9,406,931
Total	$	928,342,273

*Taxes are not levied on personal property assessed valuation of approximately $242.5 million.

TAX RATES PER $100 ASSESSED VALUATION

		Rate	Expiration Date
General	$	0.4713	None
Public health and recreation		0.2218	None

The city has the following sales taxes; the rates are per $1 of retail sales:

		Rate	Expiration Date
General	$	0.0100	None
Capital improvement (1)		0.0050	12/31/2003
Storm water control		0.0025	12/31/2010

(1) This sales tax was replaced with a transportation sales tax of three-eighths of one percent, effective January 1, 2004, which shall expire on December 31, 2008 and a local parks sales tax of one-quarter of one percent, effective January 1, 2004, which shall be in effect until December 31, 2012, at which time the tax rate shall be reduced to one-eighth of one percent and shall remain in effect thereafter until repealed.